

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 ABF-01 DOE-15 SOE-02 AGRE-00 L-03 H-01
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R 312305Z MAR 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 6871
AMCONSUL MONTREAL
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DEPT. PASS TREASURY

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: ECONOMIC DEVELOPMENTS: WEEK OF MARCH 22-28.

REF: OTTAWA 1444

1. SUMMARY. FINANCE MINISTER IS CONSIDERING PRESENTATION OF BUDGET, DESPITE PRE-ELECTION POLITICAL PERILS, ABOUT MID-APRIL. CANADIAN DOLLAR BUFFETED BY STRONG DOWNWARD PRESSURE, IN PART DUE TO EXPECTATIONS OF HIGHER U.S. INTEREST RATES. EXCHANGE MARKET INTERVENTION AND RESERVES LOSSES BELIEVED HEAVY AT TIMES. GOVERNMENT OF CANADA BOND ISSUE WELL RECEIVED IN NEW YORK, BUT PRICES DECLINED AFTER ISSUE IN RESPONSE TO GENERAL MARKET WEAKNESS. LABOR INCOME DECLINED IN JANUARY. END SUMMARY.

2. FEDERAL BUDGET. FINANCE MINISTER CHRETIEN IS BELIEVED TO BE CONSIDERING PRESENTATION OF FEDERAL BUDGET AROUND

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MID-APRIL. TIMING OF BUDGET PRESENTS PROBLEMS AS GOC APPARENTLY REMAINS RELUCTANT TO ADD MAJOR FISCAL STIMULUS DUE TO FEARS OF INFLATION, LARGE EXISTING DEFICIT, AND WEAKNESS OF CANADIAN DOLLAR. YET WITH FEDERAL ELECTIONS EXPECTED LATE THIS SPRING, FAILURE TO ADD FISCAL STIMULUS IN BUDGET AT TIME OF HIGH UNEMPLOYMENT AND SLOW GROWTH WILL GIVE OPPOSITIONPOLITICAL PARTIES AN ADDED ISSUE IN ELECTIONS

WHICH IS ALREADY EXPECTED TO BE FOUGHT OVER STATE OF THE ECONOMY. DECISION ON BUDGET TIMING IS EXPECTED SOON.

3. EXCHANGE RATE. THE CANADIAN DOLLAR WAS UNDER STRONG DOWNWARD PRESSURE IN DISORDERLY MARKETS OVER PAST WEEK, FALLING BELOW LEVEL IT HAD BEEN WHEN BANK RATE INCREASE WAS ANNOUNCED MARCH 8. PRESSURE WAS PARTICULARLY HEAVY MARCH 27-28 WHEN RATE APPROACHED 88 U.S. CENTS (LOW DURING TRADING WAS 88.04 AND CLOSED MARCH 28 AT 88.14). BANK OF CANADA REPORTEDLY INTERVENED HEAVILY TO HELP SLOW DOWNWARD TREND. THE AVERAGE RATE FOR THE WEEK ENDED MARCH 23 WAS 88.81 U.S. CENTS, DOWN FROM 88.94 THE PREVIOUS WEEK.

4. PRESSURE ON CANADIAN DOLLAR WAS ATTRIBUTED TO A VARIETY OF CAUSES, INCLUDING EXPECTATION OF HIGHER U.S. INTEREST RATES, CONTINUED SLOW PACE OF FOREIGN BORROWING, HIGH END OF MONTH COMMERCIAL DEMAND FOR U.S. DOLLARS, AND LACK OF ENCOURAGING ECONOMIC NEWS. LATER IN WEEK, CANADIAN DOLLAR RECOVERED SOMEWHAT.

5. GOC FOREIGN BORROWING. THE U.S. DOL 750 MILLION THREE PART BOND ISSUE BY GOC REPORTEDLY SOLD WELL IN NEW YORK MARCH 23. HOWEVER, BONDS PRICED AGGRESSIVELY TO YIELD JUST ABOVE U.S. TREASURY SECURITIES AND WHEN U.S. MARKET RATES ROSE LATER THE PRICES ON THE CANADAS FELL AFTER ISSUE TO MAINTAIN THE YIELD SPREAD. THE LIMITED OFFICIAL USE

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FIVE YEAR CANADAS WERE PRICED AT ISSUE TO YIELD 7.95 PERCENT, BUT WHEN U.S. TREASURY 61 MONTH NOTES WERE LATER AUCTIONED TO YIELD 7.95, THE PRICE OF THE FIVE YEARS CANADAS FELL TO YIELD ABOUT 8.06. EARLY TRADING IN THE 7.5 YEAR MATURITY INCREASED THE YIELD FROM 8.2 PERCENT AT ISSUE TO 8.32, AND PRICES ON THE 20 YEAR MATURITY DECLINED TO INCREASE THE YIELD FROM 8.65 AT ISSUE TO 8.72 PERCENT.

6. PRE-TAX WAGES AND SALARIES, SEASONALLY ADJUSTED, DECLINED BY CDOLS 145 MILLION TO 9.4 BILLION BETWEEN DECEMBER AND JANUARY. AVERAGE WEEKLY EARNINGS IN JANUARY (SA) WERE DEOWN 1.4 PERCENT TO CDOLS 255.60. AVERAGE WEEKLY HOURS ALSO DECLINED IN JANUARY IN MANUFACTURING, MINING, AND CONSTRUCTION, REFLECTING STAGNANT INDUSTRIAL PRODUCTION. AFTER TAX INCOMES, HOWEVER WERE BOOSTED BY THE CDOLS 50 PER TAXPAYER PER MONTH DECREASES IN WITHHOLDING EFFECTIVE IN JANUARY AND FEBRUARY.
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